



Index Flows Could Lift Shares Higher

Maintenance related outage at SAFCO 3 had a higher than expected volume impact, resulting in substantially lower revenues. Consequently, 1Q19 EPS of SAR 0.81 (+41% Y/Y and -41% Q/Q) fell short of our SAR 1.01 estimate. We see product prices weakening in 2019, rendering last year's performance difficult to achieve. However two critical events to watch will be progress on acquisition of Sabic's agri-nutrients portfolio (elevating cash conservation) and emerging markets index inclusion. While we maintain our 12-month outlook at Hold and SAR 75 target price, SAFCO is expected to receive a further \$230 mln in foreign inflows through Mar-2020. Look for opportune exit points and potential entry post-index passive flows.

Volume declines on SAFCO 3 turnaround

SAFCO announced weaker than expected revenues of SAR 719 mln (-11% Y/Y and -34% Q/Q) versus our SAR 940 mln forecast. SAFCO 3 maintenance outage curtailed production volume by roughly -10% Y/Y considering that urea price was nearly flat. On sequential basis, urea averaged -19% lower at \$259/t. We note that the Reliability Improvement Project improved production by +20% in 2018 to 6,109kt (3,726kt urea, 2,340kt ammonia).

Strong improvement in gross margin

Operational efficiency raised gross margin to 53% in 1Q19 from 44% in corresponding quarter of last year, despite nearly flat product price. In our view, the Company is planning ahead to potential increase in feedstock price – timeframe and magnitude uncertain.

Earning miss stems from weaker topline

Net income of SAR 335 mln (+41% Y/Y and -41% Q/Q) topped consensus SAR 264 mln but missed our SAR 420 mln estimate. Operating and net margins were slightly below our forecast, leading us to believe that the earnings miss resulted from weaker topline.

Index implementation to support share price

We are projecting urea to average \$264 for 2019, down from \$281 in prior year. Further, the possibility of conservative dividend payout ratio remains as the Company approaches acquisition of Sabic's agri-nutrients portfolio – possibly a cash and stock consideration. However, SAFCO is a candidate for emerging markets index inclusion for both MSCI and FTSE where foreign inflows could drive share price higher. We estimate YTD inflows at \$102 mln as foreigners have raised ownership by 113 bps. Total expected passive inflows are \$332 mln which means there is still plenty of room to go. Low stock availability could drive share price higher.

SAFCO (SAR mln)	1Q19	1Q19E	1Q18	Y/Y Chg	4Q18	Q/Q Chg	Variance	Cons
Revenues	719	940	811	-11%	1,090	-34%	-24%	824
Gross profit	378	503	358	6%	691	-45%	-25%	
Gross margin	53%	54%	44%		63%			
Operating profit	296	389	242	22%	574	-49%	-24%	
Operating margin	41%	41%	30%		53%			
Net income	335	420	237	41%	569	-41%	-20%	264
Net margin	47%	45%	29%		52%			32%
EPS (SAR)	0.81	1.01	0.57	41%	1.36	-41%	-20%	0.63

SAR 75

12-Month Target price

Hold

Recommendation

Stock Details		
Last Close Price	SAR	83.60
Upside to target	%	(10.3)
Market Capitalization	SAR mln	34,833
Shares Outstanding	mln	417
52-Week High - Low	SAR	87.90 – 60.00
Price Change (YTD)	%	8.4
3-Mth ADTV	thd	222
EBITDA 2019E	SAR mln	1,986
Reuters / Bloomberg	2020.SE	SAFCO AB

SAR mln	2018	2019E	2020E
Revenues	3,860	3,526	3,472
Gross Margin	55%	53%	52%
EBIT	1,692	1,455	1,402
Operating Margin	44%	41%	40%
Net Income	1,738	1,535	1,497
Net Margin	45%	44%	43%
EPS (SAR)	4.17	3.68	3.59
DPS (SAR)	2.50	2.50	2.50

Price Multiples			
	2018	2019E	2020E
P / E	20.0x	22.7x	23.3x
EV / EBITDA	15.4x	17.2x	17.6x
P / S	9.0x	9.9x	10.0x
P / B	4.4x	4.2x	4.0x

1-Year Share Performance (rebased)



Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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